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FISCAL IMPACT STATEMENT

LS 7732

BILL NUMBER: HB 1658

NOTE PREPARED: Jan 15, 2007

BILL AMENDED:

SUBJECT: Sustainable building property tax deduction.

FIRST AUTHOR: Rep. Austin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes a county fiscal body to adopt an ordinance providing a deduction from the assessed value of a newly constructed building or a rehabilitated building that is certified to meet the LEED (Leadership in Energy and Environmental Design) silver rating under the rating systems of the U.S. Green Building Council. It requires the ordinance to specify the amount of the deduction. The bill also authorizes the Indiana economic development corporation to adopt rules allowing the corporation to give priority to economic development projects that meet or surpass LEED standards.

Effective Date: July 1, 2007.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, annual state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits is indeterminable at this time. Payments could increase if the combination of new and rehabilitated LEED certified property results in a net addition to the tax base; payments could decrease if the opposite occurs. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

The LEED certification process is outlined in the *Explanation of Local Revenues*. This provision could add administrative duties to the Office of Energy and Defense Development (OEDD), and the Department of Local Government Finance (DLGF). These duties may require additional funds and personnel. The OEDD

is required to prescribe the application form and the approval process for LEED certification. The DLGF is required to prescribe the form for the certified statement taxpayers have to submit to the county auditor. The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Under this proposal, the revenue allocated to these funds would increase or decrease depending on whether there is a net increase or decrease in the tax base.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). Homestead credits could increase if this proposal results in a net addition of new and/or rehabilitated LEED certified homesteads to the tax base; credits could decrease if the opposite occurs. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: This bill authorizes a county fiscal body to adopt an ordinance providing a property tax deduction for a newly constructed building or a rehabilitated building (qualified real property) that is certified to meet the LEED silver rating under the rating system of the U.S. Green Building Council. The bill requires the county to specify in the ordinance the amount of the deduction that may be applied to LEED certified property. It also authorizes the Indiana Economic Development Corporation (IEDC) to give priority to economic development projects that meet or surpass LEED standards. The ordinance adopted by the county fiscal body will apply to the assessment year beginning in the next calendar year after the ordinance is adopted.

Background: According to the U.S. Green Building Council's website, the LEED Rating System was created to provide the building industry with consistent, credible standards for what constitutes a green building. LEED certification provides independent, third-party verification that a building project is an environmentally healthy place to live and work. To earn certification a building must meet certain prerequisites and performance benchmarks. Projects are awarded Certified, Gold, Silver, or Platinum certification depending on the number of benchmarks they meet.

In order to obtain the deduction, a property owner is first required to file an application for LEED certification with the OEDD. The property owner is required to submit proof that the building in question meets the appropriate LEED silver rating standard. If the application for certification is approved, the OEDD will provide a certificate of approval to the property owner. If the OEDD receives an application for certification before May 11 of the assessment year, it is required to grant or deny the certificate of approval by June 11 of that year. Applications for certification received before May 11 deadline and not processed by June 11 are considered approved.

Once the OEDD grants a certificate of approval, the property owner submits a copy of the certificate, and a certified statement (in duplicate) prescribed by the DLGF, to the county auditor. The property owner must file the statement between Mar 1 and June 11 inclusive of the assessment year. Once the township assessor verifies the statement, the county auditor shall allow the deduction. If the application for deduction is denied, the property owner can appeal the verdict to the County Property Tax Assessment Board of Appeals

(PTABOA). The PTABOA is limited to reviewing its own determinations, the township assessor's, and the DLGF's. The taxpayer must file the statement each year for which the taxpayer wishes to claim the deduction for the building in question.

This proposal may lead to additional economic development thereby increasing the tax base. Generally, the addition of assessed value to the tax base provides a tax shift from existing property to new property by spreading the tax levy over a larger tax base. The opposite might occur if this proposal leads to a net decrease in the tax base. The amount of change in the AV and the amount and direction of the tax shift are indeterminable and will depend on local action.

The revenue for cumulative funds would be changed by the product of the fund rate multiplied by the net change in the amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; Office of Energy and Defense Development; Indiana Economic Development Corporation; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County auditors; Township Assessors; County Property Tax Assessment Board of Appeals.

Information Sources: U.S. Green Building Council Website.

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